

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NATIONAL GOVERNMENT SERVICES
CLAIMED ALLOWABLE ADMINISTRATIVE
COSTS FOR FISCAL YEARS 2008 AND
2009 UNDER MEDICARE CONTRACT
00450**

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Office of Inspector General

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

INTRODUCTION

National Government Services claimed allowable administrative costs of \$125,260,915 for FY 2008 and 2009 under Medicare Part A contract 00450.

WHY WE DID THIS REVIEW

The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program through contracts with private organizations that process and pay Medicare claims. The contracts with CMS provide for the reimbursement of allowable administrative costs incurred in processing Medicare claims. After the close of each Federal fiscal year (FY), contractors submit a Final Administrative Cost Proposal (cost proposal) reporting Medicare costs. Once CMS accepts the cost proposal, the contractor and CMS negotiate a final settlement of allowable administrative costs.

From October 1, 2007, through September 30, 2009, CMS contracted with National Government Services (NGS) to process Part A claims in four states. CMS requested that we perform an audit of the Part A cost proposal NGS submitted for this period.

OBJECTIVE

The objective of this review was to determine whether the administrative costs NGS reported on its cost proposals for Federal FY 2008 and 2009 were allowable under the Medicare contract and applicable Federal regulations.

BACKGROUND

Title XVIII of the Social Security Act established the Medicare program. CMS administers the Medicare program through contractors, including Part A fiscal intermediaries and Part B carriers that process and pay Medicare claims submitted by health care providers. Contracts between CMS and the Medicare contractors define the functions to be performed and provide for the reimbursement of allowable administrative costs incurred in the processing of Medicare claims.

Following the close of each Federal FY, contractors submit to CMS a cost proposal that reports the Medicare administrative costs incurred during the year. The cost proposal and supporting data provide the basis for the CMS contracting officer and contractor to negotiate a final settlement of allowable administrative costs. When claiming costs, Medicare contractors must follow cost reimbursement principles contained in Part 31 of the Federal Acquisition Regulations (FAR) and other applicable criteria.

Until December 2006, United Government Services was the Medicare contractor under CMS' Medicare contractor number 00450 and processed Medicare Part A claims for providers in four states. In January 2007, NGS assumed Medicare operations of the United Government Services. NGS processed Medicare claims for providers in four states and reported a total of \$125,260,915 in administrative costs for FY 2008 and 2009.

HOW WE CONDUCTED THIS REVIEW

NGS claimed administrative costs to CMS totaling \$127,572,663 during our audit period, October 1, 2007, through September 30, 2009. We reviewed \$125,260,915 in administrative costs, but excluded \$2,311,748 in pension costs that will be the subject of a separate review. We reviewed 300 random sample items to determine if the costs claimed were reasonable, allowable and in compliance with the FAR and other applicable criteria. The 300 sample items were selected randomly from a population of three cost categories: salaries and wages; miscellaneous; and overhead.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our internal control review to those controls related to the recording and reporting of costs on the cost proposals. We accomplished our objective through random testing. Appendix A contains details of our audit scope and methodology, Appendix B contains details of the Final Administrative Cost Proposals and Appendix C contains details of the statistical sampling methodology.

We conducted fieldwork at the contractor operations facility in Indianapolis, IN from August 2011 through February 2013.

RESULTS OF REVIEW

The \$125,260,915 in costs covered by our review was allowable under the terms of the Medicare contract and applicable Federal Regulations. Accordingly, this report contains no recommendations.

APPENDIX A: SCOPE AND METHODOLOGY

SCOPE

NGS claimed administrative costs to CMS totaling \$127,572,663 during our audit period from October 1, 2007, through September 30, 2009. This total included pension costs of \$2,311,748 that we did not review because they will be the subject of a separate review. We therefore reviewed \$125,260,915 in administrative costs. We limited our internal control review to those controls related to the recording and reporting of costs on the cost proposals. We accomplished our objective through random testing.

We conducted fieldwork at the contractor operations facility in Indianapolis, IN from August 2011 through February 2013.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations and guidelines;
- reviewed NGS's contracts with CMS;
- reviewed NGS's external audit reports for calendar years 2008 and 2009 and an Office of Inspector General audit report for Federal FY 2007;
- interviewed NGS officials regarding the cost accumulation processes for its cost proposal and cost allocation system;
- reconciled line item expenses on the cost proposal and cost classification report to NGS accounting records;
- tested costs for reasonableness, allowability, and allocability by reviewing contracts and agreements and by randomly selecting journal entries, invoices, expense vouchers and reports, payroll journals, corporate bonus plans and personnel records; and
- reviewed total compensation paid to the five highest paid executives.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**APPENDIX B: FINAL ADMINISTRATIVE COST PROPOSALS WITH
RECOMMENDED COSTS FOR ACCEPTANCE**

Cost Category	Fiscal Year 2008	Fiscal Year 2009	Total
Salaries and Wages	\$28,559,150	\$16,640,771	\$45,199,921
Fringe Benefits	14,689,395	11,143,385	25,832,780
Facilities or Occupancy	5,272,577	2,831,791	8,104,368
EDP Equipment	1,965,353	1,455,265	3,420,618
Subcontracts	0	0	0
Outside Professional Services	407,700	462,085	869,785
Telephone and Telegraph	0	0	0
Postage and Express	2,569,784	5,244,016	7,813,800
Furniture and Equipment	0	0	\$0
Materials and Supplies	482,291	1,741,268	2,223,559
Travel	213,433	111,595	325,028
Return on Investment	176,122	159,335	335,457
Miscellaneous	6,042,752	229,086	6,271,838
Other	20,563,074	13,193,975	33,757,049
Credits	(3,674,494)	(2,907,046)	(6,581,540)
Forward Funding	0	0	0
Total Costs Claimed	\$77,267,137	\$50,305,526	\$127,572,663
Less Pension Costs Not Reviewed	967,124	1,344,624	2,311,748
Total Costs Reviewed	\$76,300,013	\$48,960,902	\$125,260,915
Recommended for Acceptance	\$76,300,013	\$48,960,902	\$125,260,915

APPENDIX C: STATISTICAL SAMPLING METHODOLOGY

POPULATION

The population consisted of all salaries, miscellaneous and other administrative costs claimed during FY 2008 and 2009 that were greater than or equal to \$5.00. There are 31,836 line item transactions totaling \$104,994,193.

SAMPLING FRAME

NGS provided us an MS Excel spreadsheet that included all transactions from the general ledger for 2008 and 2009. These transactions were sorted by month recorded and account activity. Any account activities that had more than one transaction in a month were combined into one line. The transactions were sorted and grouped by date and activity and sequentially numbered.

SAMPLE UNIT

The sampling unit was one line item's transaction.

SAMPLE DESIGN

Our sample design consisted of a stratified random sample. The strata were as follows:

Stratum	Cost Category	Number of line items	Dollar Value of Line Items
1	Salaries and Wages	10,382	51,203,071
2	Miscellaneous	2,984	16,340,943
3	Other	18,470	37,450,179
Total =		31,836	104,994,193

SAMPLE SIZE

The sample size consisted of 300 sample items, 100 per stratum.

SOURCE OF RANDOM NUMBERS

Random numbers were generated using the OAS Statistical Sampling software RAT-STATS 2010, Version 3.

METHOD FOR SELECTING SAMPLE ITEMS

We consecutively numbered the sample units in the frame from 1 to 10,382 for stratum 1, and from 1 to 2,984 for stratum 2 and 1 to 18,470 for stratum 3. We generated 100 random numbers for each stratum. We then selected the corresponding frame items. A list of the sample units was created using MS Excel.

ESTIMATION METHODOLOGY

Using the HHS-OIG-OAS RAT-STATS 2010, version 3, Variable Appraisal Program for stratified samples, we estimated the amount which was not allowable, allocable, or supported, pursuant to the NGS Medicare Part A contract with CMS.